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SIPDIS

FOR TREASURY SECRETARY SNOW FROM CHARGE ALEX WOLFF

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SUBJECT: SCENESETTER FOR TREASURY SECRETARY SNOW'S JUNE 15  
VISIT TO FRANCE

Classified By: Charge d'affaires a.i. Alex Wolff for reason 1.4 (d).

Mr. Secretary:

11. (C) We warmly welcome your visit and look forward to your assistance in moving forward the deep and complex relationship we enjoy with France. As a member of the G8 and the UN Security Council with extensive ties to former colonies around the world, France plays a prominent role in the international community. Your prior G8 meetings in London will have addressed our common global interests in financing for development and debt relief issues, but your visit to France will provide an opportunity to advance our bilateral agenda.

#### TANGIBLE BENEFITS

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12. (C) Your visit comes at a time when France is contemplating the future direction of its economic policy, following the well-publicized defeat of the referendum on the EU Constitution in France, which led President Chirac to institute a Cabinet shake-up. Although political analysts have come up with a myriad of reasons for the defeat, including widespread dissatisfaction with Chirac himself, the GOF has chosen to interpret the defeat as largely a call to do something about unemployment. Paradoxically, the GOF hopes to champion the so-called European or French model of development (strong social protections and continued state intervention in the economy, including by state-owned enterprises), despite the demonstrated results of such policies: unemployment at around 10 percent and a GDP growth rate around 2 percent and dropping.

13. (C) Finance Minister Thierry Breton retains his portfolio and has already announced plans to continue with the cautious privatization of France Telecom (where he was former CEO) and Gaz de France (GDF).

#### POLITICAL HURDLES

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14. (C) France historically has had a curious role in European integration: a self-styled leader in promoting integration, it is often the last to act to implement European directives. Its most recent "success" was its ability to thwart strict interpretation of the EU Stability and Growth Pact, to suit its own short-term economic interests. The government's desire to placate a restive electorate may prove a further test to the Pact, as France seeks to boost employment and adopt other measures to shore up a flagging economy. The GOF may try to divest some holdings in state-owned enterprises, as it recently did with France Telecom shares, and plans to do again with France Telecom and GDF, to come up with some cash for employment programs. Proposed partial privatization of the state electricity supplier, EDF, will be a more real test of the government's privatization commitment.

15. (C) The GOF's predilection for defending the "French model" of economic development puts it into a box - it cannot abandon that position without putting at risk the electoral chances of Chirac himself, should he decide to run again in 2007, or his party if he decides not to run again. In some respects, the greatest obstacle to change in France today is Chirac himself. He has become a conservative in the truest sense, which means preserving even socialist legacies, against the perceived onslaught of "Anglo-Saxon liberalism." In a televised address to the nation on May 31, Chirac called for a "national mobilization" against the economic failings and lack of confidence that undermine France's national strength. In his remarks, Chirac took care to insist that, though "all" approaches to solving social and economic problems are on the table, restructuring France's social model was not. The GOF fears street protests and labor unrest should it move towards reform of labor laws.

#### TRADE

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16. (C) Your meeting with Pascal Lamy, the incoming WTO

Director General, should help to focus his attention on the developmental aspects of success on the trade front. That message will be even more opportune after the G8 meetings, when the UK plans to highlight attention on actions to assist the least developed countries. Lamy, as former EU Trade Commissioner and incoming WTO Director General, understands well that the EU Common Agricultural Policy (CAP) has detrimental effects, even as now modified, on developing countries. The Boeing/Airbus dispute will be an early, visible and important test of Lamy's mettle at the WTO.

#### TERRORIST FINANCING

17. (C) France renewed its focus on counter-terrorism issues following 9/11, and we have enjoyed excellent relations at all levels in the context of combating terrorist financing. France expanded the role of its Financial Investigative Unit, Tracfin, which continues to investigate classic money laundering activities, but which broadened its scope to include sectors -- associations and phone cards, for example -- it may have overlooked in the past. At the policy level, French efforts mirror ours: prosecute the crimes that finance terrorism and increase interagency cooperation.

#### FINANCIAL INTEGRATION

18. (SBU) With its headquarters in Paris, the Committee of European Securities Regulators (CESR) plays a pivotal role in trans-Atlantic cooperation and European financial markets integration. On trans-Atlantic cooperation, the Securities and Exchange Commission, the Commodities Futures Trading Commission, and the Office of Thrift Supervision already have begun joint cooperative activities with CESR, and that should be encouraged. Within Europe, CESR's practice of outreach and consultations with market participants is a commendable practice that promises to be more responsive to market realities and needs. The Embassy has enjoyed an excellent cooperative relationship with CESR officials and has worked with them on several public outreach events.

#### FINANCIAL SECTOR

19. (U) France has remained one of the main destinations of foreign direct investment. Based on preliminary information from the Bank of France, the US remains one of the largest sources of FDI in France, with 15 percent of the stock on a historical book value basis. The market value for US FDI may be more than five times the USD 47.9 billion book value reported in 2003 by the Department of Commerce, correcting for statistical bias. About 2,000 affiliates of US firms are based in France. Around 540,000 jobs result from US-origin investments. Foreign-controlled firms account for 22 percent of the workforce, 27 percent of capital expenditures, 30 percent of exports, and 30 percent of production.

110. (U) France has one of the highest individual savings rates among industrialized countries, at 15.4% of disposable income. The former government under Prime Minister Raffarin had been exploring ways to increase the rate of investments in other financial instruments (stocks and bonds), where the rate is 6.3% of disposable income. France, like most other countries, has seen considerable consolidation in its banking sector, with six banks now dominating the market. In addition, it has a sizeable share of the US banking sector. French banks in the US have assets of around USD 179 billion, or about 13 percent of the foreign banks doing business in the USA.

111. (C) Financial sector profits generally were up in 2004, although the financial community continues to have concerns about the pace of European integration of financial markets and the regulatory burden of so many regulators. Your roundtable discussion with the CEOs of the leading French financial institutions should provide insights into their views of the French economy, the GOF handling of economic policy, and steps the USG might take to further our vision for economic prosperity. You might want to inquire about the French banking and finance community's lukewarm support of transatlantic cooperation on a single marketplace, as well as accounting standards.

WOLFF